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SENSITIVE
SIPDIS

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USTR FOR MICHAEL DELANEY AND VICTORIA KADER

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SUBJECT: IMF PRESSURING THE MALDIVES TO IMMEDIATELY REDUCE
GOVERNMENT PAYROLL EXPENSES

REF: COLOMBO 892

¶1. (SBU) Summary. The Government of the Maldives (GOM) and the IMF agree that the GOM must drastically cut its government payroll expenses, but they disagree how to do it. The GOM has substantially increased its government salaries over the last two years, which, in combination with reduced foreign exchange earning from tourism and fishing, has resulted in a serious balance of payments crisis. The IMF favors a sharp and immediate cut in government salaries and benefits, and increasing revenue through new taxes to get the Maldives back on a sustainable fiscal path. The GOM would prefer cutting government positions more slowly through eliminating redundancies. The IMF realizes that the program will be very difficult to implement politically and technically. Post believes that the Maldives must move in the right direction to reduce its budget deficit, and appreciates the IMF's awareness of the implementation difficulties for the Maldives. End Comment.

IMF Program Approval Delayed Due to Disagreement

¶2. (SBU) IMF Representative Rodrigo Cubero explained to econoff that the presentation of the Maldives program to the IMF board had slipped from October to November because the GOM had not met an IMF requirement. According to Cubero, GOM payroll expenses have dramatically increased in the last two years due to generous new wage and benefit increases and some additional payroll. As described in reftel, these wage increases were pushed through by both the former authoritarian government (which ruled for thirty years) before Presidential elections, and by the new GOM before the last Parliamentary elections. The GOM has 38,000 employees, more than 12% of the total native population of the Maldives. The IMF has pushed the GOM to substantially cut government wages and benefits, but the GOM would rather reduce payroll, a much longer process. The GOM plans to eventually cut the government payroll by more than a third, but in the near term they plan to eliminate 2,500 jobs in 2009 and 3,000 more in 2010 through redundant government positions and possible privatizations. The IMF will examine the GOM 2010 budget, which should be published soon, to see if the GOM is on track to reduce its budget deficit.

¶3. (SBU) The IMF plans a three year program and will focus on reducing the cost of the government payroll and new tax systems. Under the IMF program, the GOM should reduce the government budget deficit to 18% of GDP by 2010. Cubero noted that the GOM plans to privatize the airport by early 2010, which will provide a one-time source of financing. The GOM also plans to replace their current taxes, primarily import duties, with an ad valorem tax, a sales tax, and a business profits tax.

Difficult Implementation of the IMF Program

¶4. (SBU) According to Cubero, the IMF realizes that it will be difficult for the GOM to implement the necessary reforms. No legislation has passed since the Parliamentary elections in May 2009, when the opposition won two more seats than the government party. Cubero suggested that the government could pass the revenue legislation by wooing some independent legislators to create an ad hoc majority. Cubero also recognized that it will be difficult for the GOM to switch from collected taxes through import duties (which are relatively easy to collect), to developing an entirely new tax structure of income, sales taxes and a business profits tax. The business profits tax will be the most difficult to administer, since companies can use loopholes to hide their true profits.

¶5. (SBU) Comment. The GOM has already lobbied Post for more leeway on the IMF,s targeted government budget deficit. The government was democratically elected after 30 years of authoritarian rule, and they have sincere plans to reform

their economy (see reftel). Post has sought technical assistance to help the GOM through the transition, and has received an offer of technical assistance on tax reform. However, given the magnitude of the democratic and economic transition, at a difficult time for their critical tourism industry, post urges flexibility on the IMF program, as long as the GOM is implementing reforms to move to a sustainable fiscal path. End Comment.
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